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China, Peoples Republic of

Retail Food Sector in South China

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Report Highlights:

Opportunities for U.S. food products exist in South China. Slower economic growth in recent years have reduced consumer demand, but interest in U.S. products remains sizable. Products that retail at less than \$3.50 per unit do the best in this market. Best prospects include snack foods, candy, fruit, canned corn, frozen fresh juice and milk powder.

Includes PSD changes: No
Includes Trade Matrix: No
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Market Brief

I. Market Summary

- The Guangdong supermarket industry's 1998 food and beverage sales were \$2.66 billion (22 billion RMB).
- The number of supermarkets, hypermarkets, convenience stores, department stores carrying food and beverage items, and other related retail outlets in China's Guangdong province is approximately 1,900.
- Less than 10 percent of the food and beverage products sold in supermarkets are imported. The most popular imports include: milk powder/infant formula, candy, snack foods, canned corn, and cookies. Sino-overseas joint venture products (foreign brands produced in factories in China) account for a much larger share, usually over 50 percent.
- Product variety in local supermarkets is considerably lower than in the United States.. The number of Stock Keeping Units (SKUs) on average is 3,000 to 5,000 per store, compared to 20,000 in a typical U.S. supermarket.
- Local supermarket managers say that their sales volume tends to be highest for products with a retail price below 30 RMB (\$3.63) per unit. \$1 = 8.27 RMB.
- The difference between local supermarket and hypermarket product purchase price and their own consumer retail price usually ranges from 8 to 15 percent. Their net profits after taxes, rent, labor, and other overhead costs often ranges between 0.8 and 1.5 percent.
- Centralized purchasing is becoming the norm among local supermarket and hypermarket chains. In years past, each store in a chain tended to separately handle their own supplies.
- Poor economic conditions since 1997 have decreased consumer spending and led to the closure of a few local supermarkets and hypermarkets.
- Despite decreased consumer spending, the food and beverage retail sales period remains from Mid-Autumn Festival in September to Chinese New Year (January, February).
- The entry of overseas invested hypermarkets has had a great impact on the local supermarket industry. Local supermarket chains in order to meet the competitive challenge have either 1) increased store size and discounted prices, or 2) downsized and become more like convenience stores.

U.S. Supplier Strengths and Weaknesses, Market Opportunities, and Competitive Threats	
Advantages	Challenges
American products are regarded as high quality by local consumers	The lingering economic slow down continues to dampen consumer spending
Customs enforcement of tariff payments and quarantine restrictions is negotiable	China maintains high tariffs on most high value consumer foods and beverages
The country's major urban centers have sizable populations of high income consumers, especially in southern China	The average income of local consumers is much lower than in the West
Great interest in American products on the part of both local distributors and importers	Distribution tends to depend more on relationships than salesmanship
Continuing expansion of infrastructure to support the distribution of frozen foods and produce	Infrastructure to support frozen foods and produce is still limited
Often conscientious about maintaining good relations with overseas suppliers	Ignorant about international trade finance and its methods
Gift giving is essential, and luxury foods are preferred. Shoppers like new products for gifts, and for their pampered children	Stores often rely on the stock available from the distributors who have import rights
Superior packaging gives the impression of better quality.	Domestic production improving in quality and marketing
Some southern Chinese are very open to using American ingredients to modify traditional local cuisine	Some southern Chinese very close-minded about new and different cuisines from the outside world

II. Road Map for Market Entry

A. Supermarkets, Hypermarkets

Entry Strategy

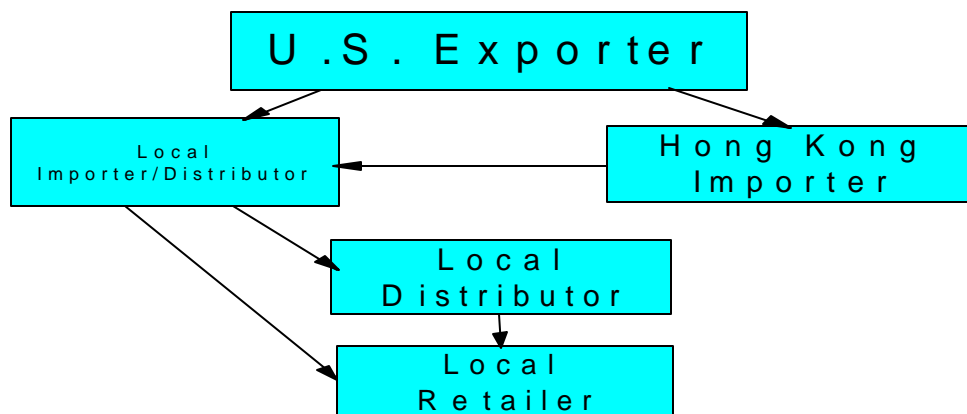
- Recruit a local distributor. Most retailers only purchase imported food and beverage products from local distributors. Many distributors who handle imports and have national reach are located in Guangdong province. The most effective recruitment methods are: 1) Exhibit at local trade shows. Due to the difficulties in obtaining a U.S. visa, many distributors confine their import buying to overseas companies that visit and learn about the local market. 2) Work with the local U.S.D.A. Agricultural Trade Office.
- Invest in promotion. Many supermarket and hypermarket managers feel that imported food and beverage products could be more popular in their stores if the manufacturers and distributors would spend more time and money on advertising and promotions in order to enhance consumer knowledge. Many of these same retail managers believe that television is the best way to increase consumer knowledge, but joint venture managers have claimed that Point of Purchase materials and sampling are much more effective in sales efforts.

Distribution Channels

China's distribution system is complex and slightly confusing, especially in Guangdong province where unofficial import channels are numerous.

- Retailers rarely purchase imports directly from overseas suppliers, but some big name joint ventures do sell directly to retailers.
- The unofficial renting, selling, and trading of import rights has made it easy for many local companies to become imported product distributors. This system makes it difficult to assess whether a potential distributor would make a viable partner.
- Many distributors in south China rely on Hong Kong companies to be their supplier of imported food and beverage products.
- Although the universal application of slotting fees (charging for shelf space) is gone, many retailers require special fees for getting good shelf spot, in-store advertising, and other services.

Chart: Distribution Flow of Imported Food and Beverage Products into South China



Company Profiles: Selected Supermarkets and Hypermarkets in Guangdong Province

Name of Retailer and Outlet Type	Ownership (Local or Foreign)	Food Sales CY 98	Number of Outlets (as of summer 1999)	Location	Type of Purchasing Agent
CRC	Chinese	\$73.76 million	58	Shenzhen, Dongguan, Huizhou	Distributor, Agents
Makro	Sino-Dutch Joint Venture	\$70 million	2	Guangzhou, Shantou	Distributor, Agents
Park 'n Shop	Hong Kong	\$45.95 million	46	various Guangdong cities	Distributor, Agents
Trust Mart	Taiwan	\$34.8 million	5	Guangzhou	Distributor, Agents
Daoneijia	Chinese	\$21.77 million	10	Guangzhou	Distributor, Agents
Meijia	Chinese	\$16.93 million	35	Dongguan	Distributor, Agents
Wanjia / Vanguard	Chinese	\$13.24 million	3	Shenzhen	Distributor, Agents
Hongcheng	Chinese	\$10.88 million	15	Guangzhou	Distributor, Agents
Yuexiu/ Beatrice	Sino-U.S. Joint Venture	\$6 million	14	Guangzhou	Distributor, Agents
Wal-Mart	U.S.	N.A.	6	Shenzhen, Dongguan, Kunming	Distributor, Agents

Local supermarkets and hypermarkets in recent times have begun to more closely resemble their Western counterparts. While less than a decade ago, most only carried dry goods. Now frozen food sections in these stores are commonplace and an ever increasing number are adding fresh produce sections. One popular product that now can be found in almost every Guangdong supermarket or hypermarket is packaged meals ready to cook. Food and beverage sales in supermarkets on average account for 60 to 75 percent of sales volume, but the percentages in hypermarkets and department stores is much less.

The sales of imported food and beverage items is often less than 10 percent in these stores, but the percentage of Sino-overseas joint venture product sales is higher. In some stores, the percentage exceeds 50 percent of total sales.

Product purchasing is usually a passive exercise in which the retailers wait for manufacturers and distributors to come to them. However, retailers are often open-minded about trying out new products, allowing trial sales periods of one to four months before making a final decision. In these cases, the product sales need to be above average in comparison with similar products in order to remain on the shelves. Seasonalities are usually taken into account. Generous payment of fees can also keep products on the shelves for longer periods of time. Some private labeling occurs in some stores, but only practiced by a limited number of stores and for a limited number of products.

Supermarkets and hypermarkets require credit when purchasing most products. The re-payment period varies from chain to chain and from product to product. The current range averages between 60 and 90 days, but some chains delay this period even further. The average repayment period has become longer in recent years and in turn has caused some distributors to cease distribution to supermarkets and hypermarkets.

Local supermarket and hypermarket customers on average tend to be younger, wanting greater convenience, and have higher incomes. These customers also are female more often than male. Price is the most important factor when considering whether to buy a product, but quality, packaging, production date, and hygiene are important too. In choosing a store, location relative to work or home also is considered.

Competition in the market has increased in recent years. In response, many chains are either making their stores larger to take advantage of economies of scales or converting to the smaller convenience store format. Those chains opting for making stores larger are closing many of their smaller stores. According to the Guangdong Chain Store Association, average supermarket floor space has risen from 300 to 500 square meters to 1,000 to 1,500 square meters. In addition, some chains have recruited overseas joint venture partners to improve their position in the local market. The Yuexiu supermarket chain is now working with Beatrice of the U.S. and Hongcheng supermarket chain will soon be enter a joint venture agreement with a Japanese company.

B. Convenience Stores, Mini- Marts, Kiosks

Convenience stores and gas marts are a relatively new concept in China. To date, only a couple of overseas chains have established themselves in south China: 7-11 and am/pm. In addition, several of the Esso gas stations also have mini-marts. Convenience stores' and mini-marts' main competition is the thousands of kiosks that dot the cities, and not supermarkets and hypermarkets. As a matter of fact, some observers see their roles as complementary. One convenience store executive claims that locating near a hypermarket is good for them, because these large stores tend to generate more business than they take away.

Company Profiles: Convenience Stores			
Retailer	Ownership	Outlet Number	Location(s)
7-11	President / Taiwan (Franchise Holder)	51	Guangzhou, Shenzhen
Meiyijia	Meijia Supermarket Chain	7	Dongguan
am/pm	Arco	4	Guangzhou

The market entry and distribution methodologies for these types of stores should be the same as for supermarkets and hypermarkets. They mainly stock imported candy, snacks, alcohol, and cigarettes. Convenience stores earn sizable revenues from prepared foods such as hot dogs and corn-on-the cob. The overseas invested convenience store chains usually buy products on short-term credit, one month or less, while kiosks often pay cash. Both convenience stores and kiosks generally sell the same types of products, except convenience stores have prepared food items and not fresh fruit while kiosks' situation is reverse. In addition, kiosks' prices tend to be lower.

Overseas invested convenience stores in Guangdong province are now only located in the cities of Guangzhou and Shenzhen, but hope to establish stores in many of the province's secondary cities. Thousands of kiosks operate in nearly every Guangdong city.

C. Traditional Markets, Small Independent Grocery Stores, and Wet Markets

These types of stores and markets still are the most popular among the local consumers. Wet markets, for example, remain the main source of their meat and produce. Some imported products find their way into these places, but by the time they reach this level all knowledge of their origin is usually lost. Any market entry strategy focusing on these places would be a waste of both time and money.

III. Competition

- U.S. exports of high value consumer food and beverage products in 1998 was \$843 million. Eighty-four percent of the total initially entered Hong Kong before shipment to China.
- Food and beverage products of U.S. origin are highly regarded by local consumer, but not necessarily regarded as the best quantity in some product categories. Local consumers rate certain products from other countries as the best (i.e., wine from

- France, dairy products from Australia and New Zealand).
- Many other countries have trade promotion offices in Guangdong province with staff working on food and beverage exports, but none of these offices specialize in food or beverage products. Countries include Australia, Canada, France, Great Britain, Italy, the Netherlands, New Zealand, Thailand, and others.
- China has a developed food and beverage industry and hosts a sizable number of food and beverage multi-nationals with production plants and distribution in south China. These companies include: Pepisco, Nabisco, Nestle, Quaker Oats, Kelloggs, President (Taiwan), and others.

IV. Best Product Prospects

A. Products in the market, which have good sales potential, include:

- Snack foods, especially nuts and dried fruits
- Candy / confectionary
- Fresh fruit
- Cookies and other baked snacks
- Canned corn
- Frozen french fries
- Milk powder / infant formula

B. Products not present in significant quantities, but which have good sales potential, include:

- Breakfast cereals, for consumption as snacks
- Baby foods, particular those made from fruits and vegetables
- Roasted ground coffee and coffee beans, the local market has had years of experience with instant coffee and some consumers are ready to graduate to a higher quality product
- Beef
- Chicken meat

C. Products not present because they face significant barriers include:

- Rice: Thai and Australian origin rice is available at many local retailers, but its importation and distribution is strictly controlled

D. Products present, but with poor sales potential, include:

- Beer: once a popular import item, but now its imports are falling, because domestic production capacity has greatly increased within the last decade
- Wine: stiff competition from lowered priced domestic and overseas varieties, plus high tariff barriers

V. Post Contact and Further Information

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